A Message *from* Our Office

Annuities are among the most complex and misunderstood financial products you can buy. Yet investors are starting to take a closer look because they are the only way, outside of Social Security and pensions, to assure a lifetime flow of income in retirement.

Over the past several years, there has been a significant increase in annuity sales to senior citizens and there continues to be some confusion among consumers about annuities and what could be questionable sales practices.

This brochure is an overview of some important information that will help you if you are considering purchasing an annuity. If you have any questions about the annuity product being offered, please contact The West Virginia Offices of the Insurance Commissioner Consumer Service Division toll-free at **888-TRY-WVIC**. If you have questions regarding investment advice or the suitability of the investment, please contact the West Virginia State Auditor's Office, Securities Commission toll-free at **888-SAIF-WVA**.

west virginia OFFICES OF THE INSURANCE COMMISSIONER

WEST VIRGINIA STATE AUDITOR

What Is An Annuity?

An annuity is a contract where an insurance company makes a series of income payments at regular intervals in return for a premium or premiums you have paid. Annuities are often bought for future retirement income.

Is An Annuity Right For You?

You should think about what your goals are for the money you may put into the annuity, as well as how much risk you are willing to take. Make sure you fully understand the product being offered, the fee structure, your investment time horizon and potential alternatives before you make the purchase. It is always appropriate to contact The WV Offices of the Insurance Commissioner to make sure the agent is properly registered. Ask yourself the following questions:

- How much retirement income will you need in addition to what you will get from Social Security and pension?
- Will you need that additional income only for yourself or for yourself and others?
- How long can you leave money in the annuity and does the annuity let you take out money when you need it?
- Is this a single premium or multiple premium contract?
- For a fixed annuity, what is the initial interest rate and how long is it guaranteed?
- Can I get a partial withdrawal without paying surrender or other charges and is there a death benefit?

Types Of Annuities

Fixed-Income Annuities: You buy the annuity with a lump sum and start receiving monthly payments immediately. The payments generally last your entire lifetime. Your payment generally doesn't change from month to month. The older you are when you buy the annuity; the higher your payments will be, because you have fewer years to live. **PROS:** you can get a set monthly payout to cover living expenses, such as mortgage and utility payments. **CONS:** Your fixed payments won't keep up with inflation.

Deferred Fixed Annuities: Your money grows at a set interest rate until you are ready to withdraw it in retirement. Typically, this interest rate is adjusted every few years to reflect market conditions. **PROS:** You can sometimes enjoy an interest rate that is higher than those of long-term bank certificates of deposit and the balance in the account does not vary with stock market fluctuations. **CONS:** When you withdraw the earnings, you will have to pay ordinary income taxes. Fixed annuities also impose stiff fees if you withdraw your money before a certain amount of time, up to 15 years.

Deferred Variable Annuities: The most complex annuities available on the market, deferred variable annuities are basically mutual funds covered in a life insurance wrapper. Your investment grows tax-deferred; its growth depends on how the stock market performs and once you retire, you can opt to take this money as a lump sum or as a lifetime stream of income. **PROS:** Besides 401(k)s and IRAs, deferred variable annuities are another way for investors to put aside money for retirement tax-deferred. You pay no tax on the investment gains until you take the money out. **CONS:** The average variable annuity costs just over 2% of assets, including an approximate 1.3% insurance charge. By contrast, if you invest your money in a U.S. open-end mutual fund, it will cost you, on average, just over 1% of assets annually.

Variable-Income Annuities: You buy the annuity with a lump sum and start receiving monthly payments immediately. With the most common variable-income annuities, the payments last your entire lifetime. Your payments will fluctuate based on stock market performance. **PROS:** These annuities provide some protection against inflation because your income rises when the stock market fares well. **CONS:** Once you put money into the contract, you typically can't take it back out; the contract is irrevocable. That means your flexibility is gone if something happens and you need to make adjustments.